



# BUDGET MONITORING REPORT

For the period from January 1 through March 31, 2013

## Economic Performance

This report presents revenues and expenditures for the General Fund, General Capital Investment Program Fund, Development Services Fund and the Utilities Operating Funds.

The purpose of the report is to compare actual expenditures and revenues and year-end projections to the 2013-2014 adopted budget, to discuss reasons for variance and to convey the local and national economic outlook.

Early year-end projected General Fund expenditures are tracking closely to revenues with a 1/10th of a percent (.1%) differential. The Budget Office is watching expenditures and revenues closely as the economy recovers.

## U.S. Economy

Federal fiscal policy remains uncertain. General uncertainty and the "Budget Control Act of 2011", also known as Sequestration, have prevented the economic recovery from being more robust. It is estimated that the "Budget Control Act of 2011" will cut \$85 million in federal spending (Puget Sound Economic Forecaster, March 2013). Outside factors also continue to play a part in the slow economic recovery. The European Sovereign Debt Crisis stalls recovery in Europe as well as the US. In addition, instability in the Middle East stemming from the Arab Spring revolts has affected fuel prices, which has a major impact on the U.S. economy.

The overall health of the national economy is trending up slowly. In the last 12 months unemployment has declined from 8.2% to 7.6% (US Bureau of Labor Statistics). This is a positive trend and most economists are predicting it to continue at a slow and steady pace.

## Performance at a Glance

	YTD
Pg 3 General Fund Q1 Revenue Projection vs General Fund Q1 Expenditure Projection	+
Pg 4 Tax Performance as Compared to Forecast	+
Pg 5 General CIP Expenditures & Resources vs Adopted Budget	+
Pg 7 Development Services Q1 Expenditure Projection vs Q1 Revenue Projection	O
Pg 7 Utilities Expenditures & Resources vs Adopted Budget	+

Compared to seasonal trends:

- + = Positive variance or negative variance < 1%.
- O = Negative variance of 1-4%.
- = Negative variance of > 4%.

Gross Domestic Product for the last 12 months has grown at a real rate of 2% year over year. Since 1970, the average real growth rate for GDP has been 2.8%. The average GDP real growth rate excluding recessions since 1970 is 3.6% (Puget Sound Economic Forecaster, March 2013). It is likely that many of the uncertainties in the economy are keeping the growth rate below average.

One of the major causes of the Great Recession was the housing market bubble and one of the major effects was the consequent housing market crash. As the bubble burst, foreclosures flooded the market and home prices plummeted. The decline in home prices discouraged construction. Between 2007 and 2009, the start of home construction declined 60%. However, the outlook has recently become more optimistic; since the trough of the recession, housing starts have grown 41% nationally (Puget Sound Economic Forecaster, March 2013).

## Regional Economy

The Puget Sound Region has enjoyed a healthier economic recovery than the nation as a whole because of large companies that the regional economy is built on. Blazing the path for the region is Boeing and Amazon. In 2012, Boeing saw extraordinary sales and currently has seven years of backlogged orders. The company is ramping up production and hiring. Amazon continues to expand their South Lake Union campus to keep pace with the rate of hiring. Seattle-Tacoma-Bellevue Metropolitan Statistical Area unemployment has dropped a full percent to 6.6% at the end of the first quarter, outpacing the nation by nearly half a percent (IHS Global Insight Regional Service April 2013).

The construction industry has been slow to recover with only a few pockets of development primarily in urban areas. The housing market seems to have turned the corner with reduced inventory and housing and slowly rising home prices. The average home value in the region sank by 30% during the Great Recession, but has since increased 20% (Puget Sound Economic Forecaster, March 2013). This growth will spur new housing starts and thus construction, and boost the regional economy.

## Bellevue Economy

Construction has finally started to recover in the City of Bellevue after a steady decline since the 4<sup>th</sup> quarter 2007. Ground was recently broken on a new hotel in the first quarter, with several more projects to begin construction in the remaining quarters of the year. It should be noted that even though construction is picking up, the City does not anticipate the level of construction seen in the few years preceding the Great Recession. Pre-recession construction was largely fueled by speculative investment and the City believes that developers are likely only to build in response to demand as opposed to in anticipation of demand.

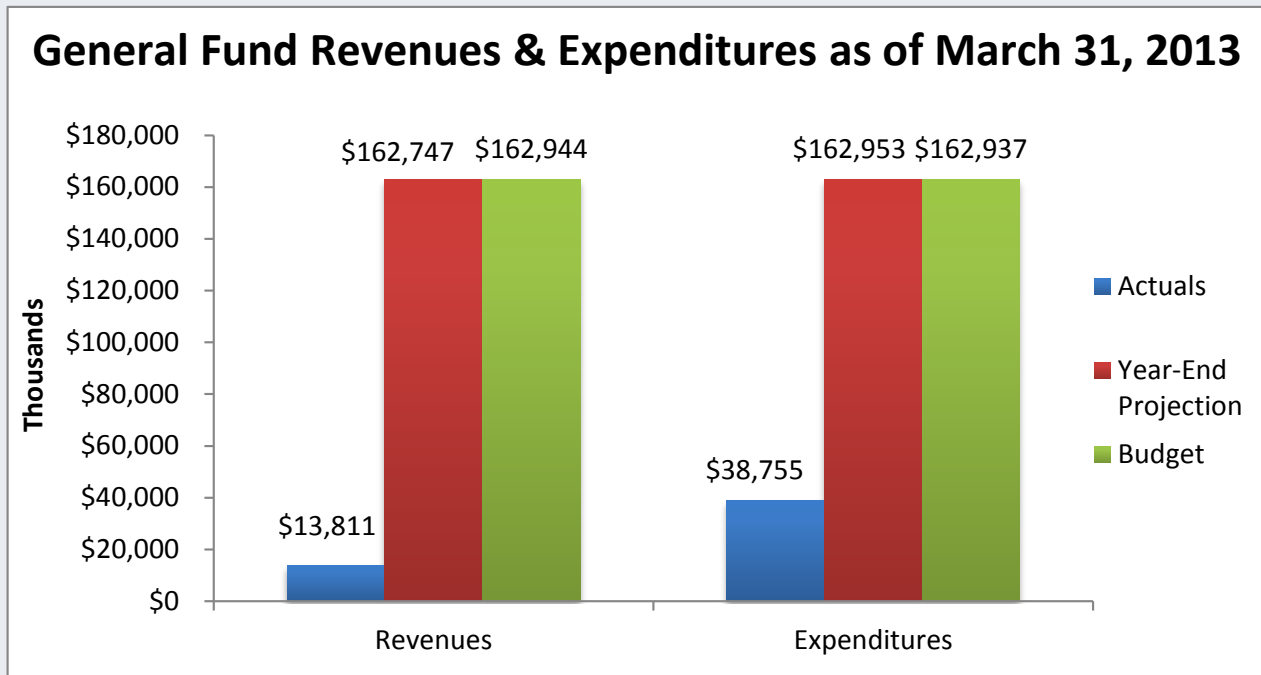
Construction had been a major drag on the economy with retail activity accounting for the most of the growth seen in the last year. Much of the growth in retail sales is in the auto sales market. In 2011, the average vehicle age advanced to 10.8 years nationally (Polk Research) because of delayed auto purchases. In the last year, auto sales began to rise with people finally deciding to replace their aging vehicles. The City anticipates auto sales to slow as the average vehicle age drops back to the historical average of 8.4 years.

Puget Sound Annual Percent Change			
	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Actual</u>	<u>2013</u> <u>Projected</u>
% Change in Employment	1.7%	2.5%	2.6%
% Change in Personal Income	5.3%	4.4%	4.5%
% Change in Housing Permits	10.5%	49.6%	28.5%
% Change in Average Home Price	(9.6)%	3.5%	12.3
% Change in Taxable Retail Sales	2.5%	6.2%	6.6%
* Source: Puget Sound Economic Forecaster—March 2013			

## City of Bellevue Budget Monitoring Report

January 1 to March 31, 2013

## GENERAL FUND PERFORMANCE



*NOTE: The above graph illustrates the difference between year-to-date revenue collections and expenditures through March, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major taxes, year-to-date actuals are less than actual first quarter activities. Expenditures are based on actual activities performed during the first quarter.*

### Revenue

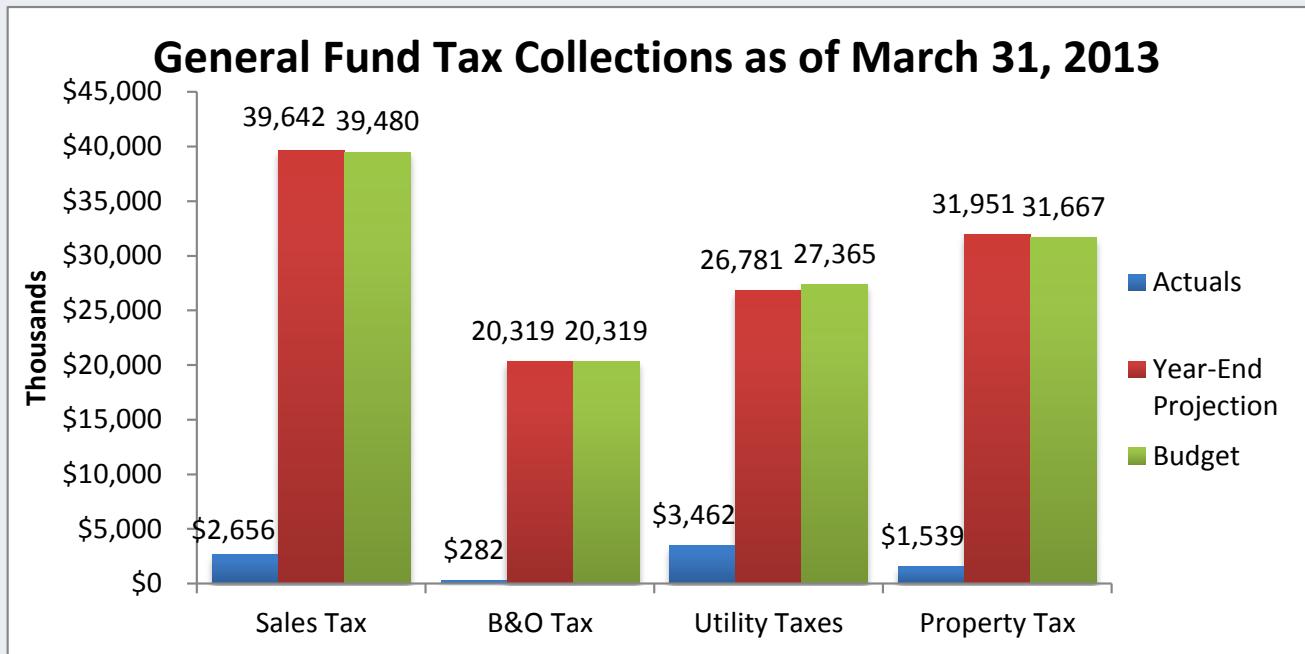
Revenues are tracking slightly below budget primarily due to reduced electric utility tax revenues. Sales tax is projected to be slightly above budget and Business & Occupation tax is tracking budget.

### Expenditures

Projected expenditures are closely tracking budget.

Early year-end expenditure projections are tracking closely to revenues within a 1/10th of a percent (0.1%) differential. The Budget Office is closely watching spending and revenue collections as the economy continues to recover.

## GENERAL FUND PERFORMANCE



*NOTE: The above graph illustrates the difference between year-to-date collections through March, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual first quarter activities. Additionally, year-end projections are based on the limited information available to date. Projections, which are based on economic trends and projections as well as historical collections, will be updated as more information becomes available.*

### Tax Revenues

At this point, year-end tax revenue projections are on target with budget. As revenue is collected, the Budget Office will update projections.

#### Sales Tax:

Sales tax is projected to be slightly above budget due to additional annexation tax collection.

#### Business and Occupation Tax (B&O Tax):

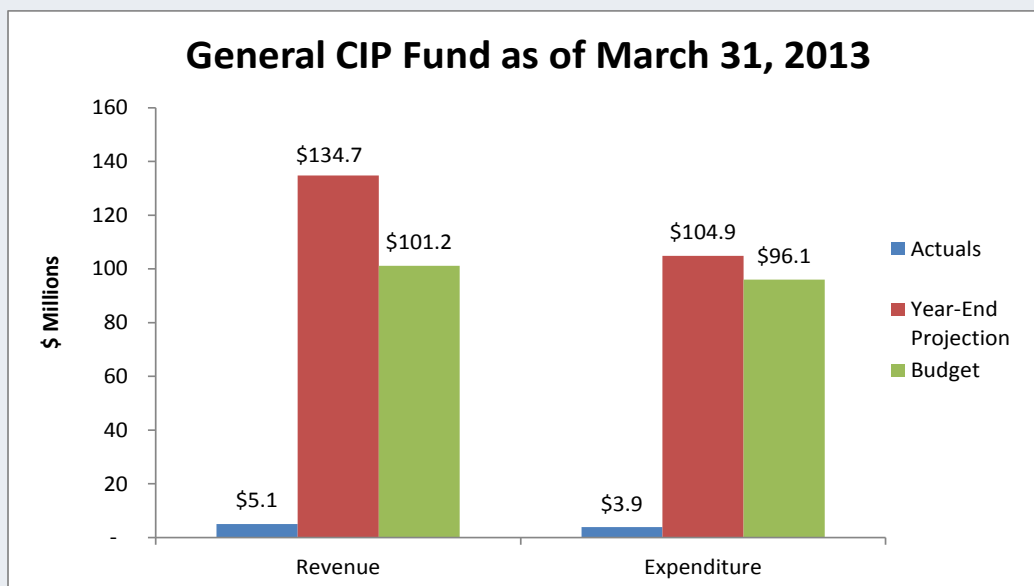
B&O tax is projected to be at budget and is collected several months in arrears.

#### Utility Taxes:

Electric tax collections in 2012 were lower than expected due to decreased demand. In 2013, based on first quarter collections, the trend is continuing. The Budget Office is in contact with Puget Sound Energy to gain further understanding of future demand forecasts.

**Property Tax.** Property tax is determined based on the assessed value of properties and the tax rate levied within Bellevue. This tax is not as volatile as sales and B&O tax and is projected to be slightly above budget.

## GENERAL CIP PERFORMANCE



*NOTE: The above graph illustrates the difference between year-to-date resource collections and expenditures through March, current estimates, and adopted budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual first quarter activities. Expenditures are based on actual activities performed during the first quarter.*

### Resources

As reflected in the Economic Performance section of this document, major CIP resource collections are projected to be in line with the Forecast. Revenues are projected to be \$33.5 M (33%) over budget, mainly due to the anticipated receipt of LTGO bond proceeds in the second quarter. Collections of sales and B&O taxes are projected to be at budget by year end (see General Fund comments). Likewise, real estate excise tax (REET) collections are projected to come in as forecasted; however, we are monitoring this revenue stream particularly closely, as the real estate activity has recently returned to pre-recession levels. Intergovernmental revenues (i.e., grants and contributions from other jurisdictions), which are primarily collected on a reimbursement basis, are projected to be less than budgeted estimates by \$5.5 million (25%) primarily due to the timing of project costs that are offset by intergovernmental revenues; in these instances, the revenues are anticipated to be collected in 2014 based upon updated project schedules.

### Cash Flow Borrowing

The remaining balance on the Line of Credit (LOC) is anticipated to be paid off and closed in the second quarter of 2013. Current projections indicate that resources will be sufficient to support projected expenditures in 2013.

### Expenditures

CIP expenditures are projected to be \$104.9 million at year end due primarily to the start of large scale transportation projects, including NE 4th Street and NE 120th Street, and the acceleration of project other expenditures.





Groundbreaking Ceremony at the Bellevue Botanical Gardens (CIP project P-AD-90).  
April 23, 2013

The following are some of the key highlights and issues for the General CIP in 2013:

#### *Transportation –*

- The 2013 Overlay Program (PW-M-1) has begun and will focus on resurfacing approximately 17 lane-miles of roadway in various locations on the East side of Bellevue. Major arterials include NE 20th Street between 140th and 148th Avenue, Northup Way east of 164th Avenue and Eastgate Way and 156th Avenue SE.
- Construction on West Lake Sammamish Parkway (PW-R-141) began in early January 2013, with a compressed construction schedule. The project is currently funded for the southernmost portion of the parkway (Phase 1). The proposed construction plan breaks the roadway into five approximately mile-long segments.
- Major property acquisitions necessary for the NE 4th Street Extension (PW-R-160) and 120th Avenue NE Improvements—Stage 2 (PW-R-164) projects are anticipated to occur in 2013 and 2014.
- Construction on 120th Avenue NE between NE 4th Street and NE 8th Street (PW-R-161) has begun. The project will widen the roadway to five lanes, construct pedestrian, bicycle and other improvements.
- In 2007, the Supplemental CIP was adopted by the City Council to fund a backlog of high priority capital projects. Funding provided by limited tax general obligation (LTGO) bonds totaled \$14.0 million in January 2008. The remaining proceeds will be used in 2013 in support of the West Lake Sammamish Parkway (PW-R-141) project.

Other major construction projects scheduled this year include:

- Traffic Computer System Upgrade Phase 4 of SCATS (PW-R-155)
- Several major maintenance projects such as rockery replacements and signal upgrades.

Major projects in design this year include:

- 120th Avenue NE Stage 3 (PW-R-168)
- NE 15th St – Zone 1 & 2 (PW-R-172 and PW-R-173)
- 124th Avenue NE (PW-R-166 and PW-R-169)
- 130th Avenue NE and NE 16th St (PW-R-170 and PW-R-174)

*Parks –* Groundbreaking for both the Bellevue Youth Theatre (P-AD-90) and the Bellevue Botanical Gardens Redevelopment (P-AD-85) occurred in the first quarter of 2013. Planning efforts continue on projects such as Bellevue Airfield Park (P-AD-83).

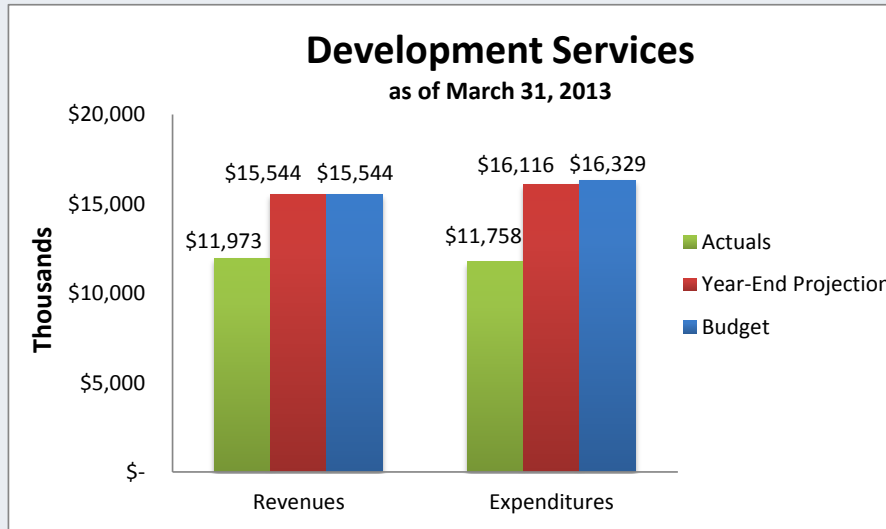
*General Government –* The Finance and Human Resources System (G-59) is scheduled to receive an upgrade in 2013. In addition, the development of a Joint City License and Tax Portal (G-88) is scheduled to be completed this year.

*Public Safety –* The Downtown Fire Station (PS-61) feasibility study is scheduled to be completed by year-end.

## **City of Bellevue Budget Monitoring Report**

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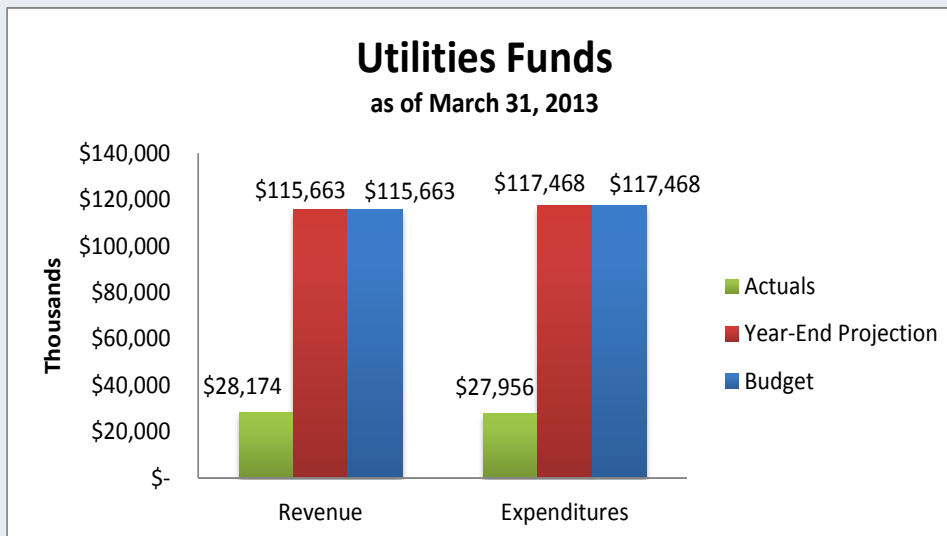
## DEVELOPMENT SERVICES PERFORMANCE



Development Services revenue collections are above anticipated levels in Q1, largely due to applications for major projects. Economic growth continues to improve as development permit applications increase in valuation size and scope. Development permit activity has increased over 2012 levels by 8% and is anticipated to grow

steadily through year-end. Development Services year-end expenditure projection is slightly below budget due to position vacancies and other maintenance and operation savings. By policy, reserves are held to address revenue shortfalls in downward cycles.

## UTILITIES PERFORMANCE



Utility revenues and expenditures are currently expected to be at budget. The budget for expenditures is greater than the budget for revenues because of carry-forwards from 2012 to 2013. When the

expenditures are brought forward, so is fund balance (not shown on the chart above) to fund them.